



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

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To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: J. Tyler McCauley 
Auditor-Controller

Subject: **DEPARTMENT OF CONSUMER AFFAIRS CABLE TELEVISION
FRANCHISE AUDITS ON WORK ORDER 6-58**

Under County Code Section 16.64.010, cable television franchisees (cable companies) pay the County a franchise fee based on their gross receipts. The Department of Consumer Affairs (DCA) requested audits of two cable companies serving eight cable television franchise areas to determine whether the cable companies properly reported their gross revenues and paid the correct franchise fees to the County. In June 2003, we contracted with Conrad and Associates, L.L.P. (Conrad), to perform these audits.

Conrad issued eight audit reports (six on Adelphia franchise areas and two on Charter franchise areas). The audits indicated that all eight cable television franchise areas underpaid the County a total of \$104,865 (see attachment). DCA has collected \$73,898 of the underpaid franchise fees. The auditors also indicated that all six Adelphia franchise areas did not provide the documents needed to verify their gross receipts for various periods. As a result, additional franchise fees may be due to the County.

Conrad discussed the results of these audits with DCA and each cable company. DCA is in the process of determining the appropriate penalty to assess Adelphia for failing to provide the needed documents. The \$30,967 (\$104,865 - \$73,898) balance due to the County remains uncollected as a result of disputes over various issues. For example, most cable companies are disputing the assessment of franchise fees on launch incentives (money paid by programmers to ensure their new production is carried by the cable franchisee) because they consider launch incentives a reduction to operating expenses (contra-expense) rather than revenue. In addition, Adelphia is disputing late fees and interest assessed on 2002 unreported revenues due in March 2003, but paid

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in March 2004. Adelpia is also disputing late fees and interest assessed on revenues unreported prior to their June 2002 bankruptcy filing. DCA is working with County Counsel and outside bankruptcy counsel, and is negotiating resolutions with the cable companies.

Please call me if you have any questions or would like to review any of the individual reports.

JTM:MMO:IDC

Attachment

- c: David E. Janssen, Chief Administrative Officer
Department of Consumer Affairs
 - Pastor Herrera, Jr., Director
 - Fern Taylor, Chief, Telecommunications Franchising
 - Raymond G. Fortner, County Counsel
 - Violet Varona-Lukens, Executive Officer
 - Public Information Office
 - Audit Committee

DEPARTMENT OF CONSUMER AFFAIRS
CABLE TV FRANCHISE AUDITS

Franchisee	Audit Period	Amount Due to County	
		Franchise	Franchisee
Adelphia			
Agoura	1999 – 2002	\$ 157	
Hacienda Heights	1999 – 2002	22,470	
South Whittier	1999 – 2002	12,203	
Green Valley	1998 – 2002	4,762	
Littlerock	1998 – 2002	23,498	
Palmdale	1999 – 2002	26,229	
Subtotal (Adelphia)			\$ 89,319 (1)
Charter			
Hidden Hills	1998 – 2002	1,311	
Malibu	1998 – 2002	14,235	
Subtotal (Charter)			15,546
Total Due			\$ 104,865 (2)

- (1) This amount does not include additional assessments that may be due for failing to provide records supporting advertising revenues, lease receipts, and other income reported for the period of January 1999 to November 1999 for Agoura, Hacienda Heights and South Whittier franchises and for the period of January 1999 to December 2000 for Green Valley, Littlerock and Palmdale franchises.
- (2) Adelphia and Charter have paid \$73,898 of the total due (see below), the \$30,967 balance is a result of disputes over various issues. For example, most cable companies are disputing the assessment of franchise fees on launch incentives because they consider launch incentives a reduction to operating expenses (contra-expense) rather than revenue. In addition, Adelphia is disputing late fees and interest assessed on 2002 unreported revenues due in March 2003, but paid in March 2004 for the Green Valley, Littlerock and Palmdale franchises. Adelphia is also disputing late fees and interest assessed on revenues unreported prior to their 2002 bankruptcy filing. DCA is currently consulting with County Counsel and outside bankruptcy counsel, and is negotiating a resolution with the cable companies.

Franchisee	Paid	Uncollected Amounts			Total Uncollected
		Franchise Fees	Launch Incentives (less LF&I)	Late Fees and Interest (LF&I)	
Adelphia					
Agoura	\$ 115	\$ 0	\$ 0	\$ 42	\$ 42
Hacienda Heights	13,116	2,572	0	6,782	9,354
South Whittier	11,595	0	0	608	608
Green Valley	3,472	0	211	1,079	1,290
Littlerock	17,071	0	1,083	5,344	6,427
Palmdale	18,989	0	1,249	5,991	7,240
Subtotal (Adelphia)	64,358	2,572	2,543	19,846	24,961
Charter					
Hidden Hills	0	0	988	323	1,311
Malibu	9,540	0	3,720	975	4,695
Subtotal (Charter)	9,540	0	4,708	1,298	6,006
Total Due	\$ 73,898	\$2,572	\$7,251	\$21,144	\$30,967